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Problems with new governments bridge in Detroit - would Michigan let the NITC default?

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DETROIT **NITC** **WOLFRAM**

Gary Wolfram, a professor of economics and public policy at Hillsdale College notes in a new report that the highly speculative new governments toll bridge proposed at the Detroit River (NITC) can be made legally the financial responsibility of the Canadians and of investors in its bonds, so giving the appearance of protecting Michigan taxpayers. But when default on debt looms - as the financial fundamentals suggest is nearly certain within a few years of the opening - then despite the legal safeguards the state government will likely calculate default is costlier than ponying up the subsidies needed.

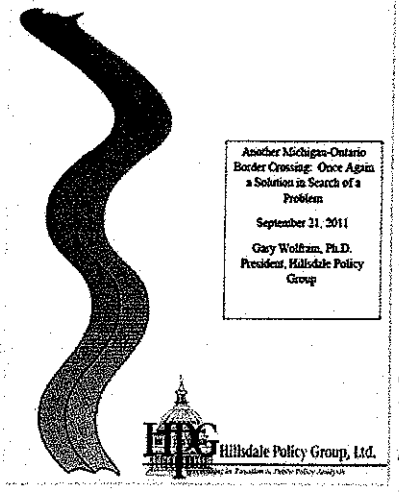
Wolfram: "While it is claimed that taxpayer dollars are not at risk, this is almost certainly not true. The history of state government subsidies of the Mackinac Bridge Authority, as well as the fact that the rating of $22 billion of other state authority debt would be put at risk should the new bridge authority default on its bonds means that the Michigan taxpayer will likely stand behind the new bridge."

Major issue in public attitudes to NITC


Wolfram

A report by the Anderson Economic Group recently argued that with strong legal safeguards liability for Michigan taxpayers could be averted. That's the major political issue shaping support or opposition to the governments New International Trade Crossing (NITC) bridge, a $3.8 billion project which would be about 3km, 1.8 miles downstream of the Ambassador Bridge. There is majority public support for the NITC bridge when interviewers stress safeguards against Michigan taxpayer liability but opposition to the NITC bridge when the question is framed leaving open the possibility of state bailouts.

Wolfram argues in a new anti-governments bridge report titled "Another Michigan-Ontario Border Crossing: Once Again a Solution in Search of a Problem" that regardless of legalisms both past experience and common sense make it plain taxpayers will bail out the bridge authority when it is unable to support its debt service and operating costs from toll revenues.



Mackinac Bridge example

He cites the history of the Mackinac Bridge in the north of the state which was financed in the 1950s with toll revenue bonds by the independent Mackinac Bridge Authority. This was at the insistence of opponents of state subsidies. Despite that it rapidly got subsidies (called 'advances') as soon as it was clear toll revenues wouldn't support it.

There is some $23 billion in outstanding debt of special authorities in Michigan, Wolfram points out. Much of this could by law be allowed to default. But any savings to taxpayers of a single default would be outweighed by much higher interest charges payable to investors on all other state special authorities debt:

"It is not likely that the state would allow a default on the NITC Authority debt, as it would certainly increase interest costs on the remainder of its special authority debt. So despite that statutory language and rhetoric to the contrary, there will be an implicit taxpayer guarantee of the (NITC) project."

Also:

"Imagine that toll revenues from the bridge are not sufficient to make principal and interest payments on the new bridge authority debt. Do we really believe that the state would let the bridge authority debt go into default and risk the rise in interest rates that would occur on the remaining state authority debt? Is it not much more likely that despite the statutory language to the contrary, that the state would provide the funds to meet the debt obligations rather than see if a contagion spreads across all Michigan special authority debt?"

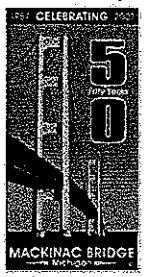
Delay has already averted financial disaster

Wolfram says that the Michigan legislature prevented a financial "disaster" for the state (and for the government of Ontario) by resisting a clamor to pass enabling legislation in 2005 urged by promoters of the new downriver bridge.

The new NITC span with six extra lanes would now be adding capacity after years of consistent decline in traffic at the 12 travel lanes of the three existing toll crossings, undermining the already depressed financial results of the Ambassador Bridge, the Detroit-Windsor Tunnel and the state's own Blue Water Bridge. The new state bridge would have embarrassingly little traffic itself, and threaten the state with default on debt.

Blue Water Bridge traffic was projected to grow but it shrank

Governments made the mistake of overestimating bridge capacity needs at the Blue Water Bridge in the early 1990s when traffic was about 6m vehicles and projected to grow. The binational bridge authority borrowed heavily and 1995 to 1998 they built an additional span, and there are now 6 lanes. But instead of growing beyond 6m traffic has declined and is currently 4.7m. Even at this reduced traffic level and with a doubled bridge span there continue to be long delays at the border - not because of any lack of bridge lanes but because of slow border clearance by Customs and Homeland Security.

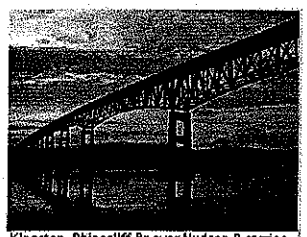


Promoters of the new NITC bridge say it is needed to enhance trade between the US and Canada. But what seems to be needed for that is smarter border clearance arrangements, not more bridge & tunnel lanes. Traffic at the border has been in decline for over a decade - a product of longterm decline and structural change not just the recent recession.

Traffic very modest

The decline has left the three Michigan-Ontario crossings with quite modest traffic. The Blue Water Bridge (6 lanes), Detroit-Windsor Tunnel (2 lanes) and Ambassador Bridge (4 lanes) combined carry a modest annual daily traffic (ADT) of 42.7k vehicles.

Wolfram points out that talk of growth in the value of trade by promoters of the NITC bridge overlooks that the value/truck has increased and that the truck numbers are what's relevant to the viability of toll bridges, not the value of their cargo. He also points out the lack of any investment grade traffic and revenue study supporting the viability of the new bridge.


Kingston-Rhinecliff Br over Hudson R carries more vehicles/day with 2 lanes than the Ambassador Bridge with 4 lanes

Comparable toll bridge numbers

Curiosity drove us to look at comparisons to traffic on the Michigan-Ontario Three with a few other toll bridges around the country. Adding up 19.8k at the Ambassador, the 9.9k of the Detroit Windsor Tunnel and the Blue Water Bridge's 13k/day the total traffic volume of the MI/ON3 is 42.7k. That's quite small.

All but one of the toll bridges in the Bay area of San Francisco carry more than the MI/ON3 (all numbers 2010.)

San Francisco-Oakland Bay Bridge 211k, Carquinez 104.1k, San Mateo Hayward 76.8k, Richmond 64.2k, Dumbarton 47.8k.

What about Delaware River bridges. Set aside those of the DRPA on the waterfront of Philadelphia which are way heavier in traffic. But even up the rural white water reaches of the Delaware the toll bridge traffic is larger than the MI/ON3:

I-80 toll bridge NJ-PA 55.4k, I-78 bridge 58.7, Trenton-Morrisville US1 54.3k

Each of these DRJTBC bridges NY-NJ carries traffic greater than the 12 lanes of the three crossings in the Detroit area with just 6 lanes (or 4 lanes now being widened to 6 lanes).

Traffic in longterm decline					
traffic (k)	Amb BR	Det Win Tnl	Blue Water Br	total 3 xgs	ratio
1999	12440	9607	5197	27244	1.000
2000	12301	8620	5545	26466	0.971
2001	11130	7748	5977	24855	0.912
2002	10455	7007	5597	23059	0.846
2003	9644	6559	5441	21644	0.794
2004	8892	5530	5168	19590	0.719
2005	8667	5494	5109	19270	0.707
2006	9680	5457	5331	20468	0.751
2007	9082	4898	5045	19025	0.698
2008	7349	4763	4922	17034	0.625
2009	6495	4002	4481	14978	0.550
2010	7232	3611	4747	15590	0.572

On the Hudson River of course the northern NJ-NY toll bridges of the PANYNJ carry vastly more traffic than MI/ON3. The George Washington Bridge with 12 traffic lanes carries 280k/day over five times the 12 traffic lanes of the MI/ON3. The Lincoln and Holland Tunnels 10 lanes carry 204k. The three Staten Island toll bridges of 12 lanes total carry 176.9k - 4 times the volume of the three MI-ON bridges and their 12 lanes in the Detroit area.

Traffic compares with the great Rip Van Winkle and Kingston Rhinecliffe bridges

Go upstate on the Hudson River to toll bridges that few but the locals have heard of - those operated by the New York State Bridge Authority - and they individually have traffic volumes comparable to the dismal Michigan-Ontario crossing numbers. The Kingston-Rhinecliff toll bridge (2 lanes) carries traffic volumes comparable to the Ambassador Bridge at 21.2k, the Rip Van Winkle Bridge (2 lanes) carries 14.8k, more than the 13k of the Blue Water Bridge (6 lanes.)

The Newburgh-Beacon Bridge (I-84) at 67.5k on 6 travel lanes carries more than all three crossings in the Detroit area with their 12 travel lanes.

2010 average daily traffic (k)		
Ambassador Br	MI-ON	19.8
Detroit Win Tnl	MI-ON	9.9
Blue Water BR	MI-ON	13.0
All 3 MI-ON	MI-ON	42.7
Benicia Martinez	CA	96.3
Carquinez	CA	104.1
San Mateo Hayward	CA	76.8
Dumbarton	CA	47.8
Richmond	CA	64.2
SF-Oakland Bay Br	CA	211.2
Rip Van Winkle	NY	14.8
Kingston Rhinecliff	NY	21.2

The proposed NITC bridge would add six travel lanes to the existing 12 for 18 lanes to handle some 43k vehicles/day or a paltry 2,370 vehicles/lane/day. There are places in the country where a single travel lane carries that volume of traffic in an hour! And plenty of toll bridges that carry 10k vehicles/lane/day, and some that carry over 20k vehicles/lane/day.

Few toll bridges in America are as lightly traveled as the Detroit crossings

Few toll bridges or tunnels in the US are as sparsely traveled as the Detroit area bridges and tunnel.

The numbers say the need at the Detroit River is not extra bridge lanes, but modernization of the bridges, improved connections to area expressways, and - most important - smarter handling of customs and border clearance, which is where the real congestion and delays are.

And, as Wolfram suggests, Michigan voters would be wise to be skeptical about claims the politicians won't put them on the hook for the losses of an expensive new bridge under a state bridge authority.

NOTE: Wolfram's report is labelled "commissioned by the Detroit International Bridge Company" owner of the Ambassador Bridge, but we think it has merit as an objective study of the issues, and makes an important contribution to public discussion of the NITC. Likewise writings by companies and governments with an interest in the construction of the NITC should be considered on their merits, not dismissed out of hand because of who paid for them.

Gary Wolfram's report:

http://tollroadsnews.com/sites/default/files/WolframG2.pdf

see report of Anderson Economic Group:

http://www.tollroadsnews.com/node/5488

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WolframG2.pdf	824.02 KB

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